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DEPT FOR AF/SPG, EEB/IFD/OMA AND EEB/IFD/ODF
NSC FOR HUDSON AND PITTMAN
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DEPT PLS PASS TREASURY FOR OIA, USED IMF AND USED WORLD BANK
ADDIS ABABA ALSO FOR USAU

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SUBJECT: FY 2009 GOVERNMENT OF NATIONAL UNITY BUDGET: REVENUES DOWN, DEFICIT WAY UP

REF: KHARTOUM 1718

¶1. (U) SUMMARY. Sudan's FY 2009 budget reflects the impact of falling global oil prices. Revenues are projected to decline about 15 percent, to 18.4 billion Sudanese Pounds (SDG), which is entirely the result of dropping oil revenues. Total expenditures are to remain unchanged from FY 2008 at approximately SDG 26 billion, but despite this, transfers to the Government of South Sudan (GoSS) and to regional states will fall 14 percent (from SDG 10.8 billion to 9.3 billion.) The fiscal deficit will almost double to 6.2 percent of GDP. The budget is based on forecasted oil revenues that already may be too optimistic, and it may have to be revised in the new year. Septel will provide IMF/World Bank analysis of the broader impact the global recession is having on Sudan's macro-economic situation. END SUMMARY.

¶2. (U) On December 1, 2008 Sudan's National Assembly approved the Government of National Unity's (GNU) FY 2009 budget (January 1-December 31, 2009). The FY '09 Budget projects total revenues of SDG 18.37 billion (approx. USD 8.35 billion), expenditures of SDG 25.8 billion (USD 11.73 billion), and a net deficit of SDG 6.7 billion (6.2 percent of the country's GDP,) an 81 percent increase from FY 2008. 55 percent of the deficit is to be financed by foreign borrowing and 45 percent through domestic borrowing. Despite criticism by opposition parties, the National Congress Party (NCP) succeeded in getting approval of the FY 2009 budget using a party-line majority vote.

Policy Objectives

¶3. (U) In his November 17 message introducing the FY 2009 budget to the National Assembly, Minister of Finance and National Economy Dr. Awad Ahmed Al-Jaz stated that the FY 2009 budget will meet the following policy objectives:

- The budget aims at maintaining a positive economic growth rate of 8 percent;
- Maintaining an annual inflation rate at 8 percent, with the flexibility and stabilization of the national currency exchange rate;
- The continued decoupling of Sudan's economy from the U.S. dollar and conversion to other currencies;
- Establishing new Comprehensive Peace Agreement (CPA) commissions; South Sudan Referendum Commission.
- The budget will not increase taxes that will affect the ordinary citizens; it will continue to subsidize electricity.
- Liquidation of the government's shares in public companies.
- To compensate for the sharp decline in oil prices, the budget will raise duties on imported vehicles and indirect taxes on telecommunication services.

Summary of the 2009 Budget

¶4. (U) (Figures in billions of Sudanese Pounds at the exchange rate of U.S. $1:2.2 SDG)

Projetd Total FY 2009 Revenue SDG 18.37 billion

Of which:

Taxes SDG 8.15 billion
Grants SDG 0.85 billion
Oil revenues SDG 7.94 billion
Non-oil revenues SGD 1.48 billion

Total FY 2009 Expenditures SDG 25.8 billion

Of which:

Wages/salaries/insurance SDG 6.85 billion
Procurement of goods and services SDG 2.46 billion
Subsidies SDG 0.29 billion
Grants SDG 9.53 billion

Transfers to:
Northern States SDG 3.45 billion
GOSS SDG 3.23 billion

¶5. (U) The FY 2009 budget allocates SDG 108,247.887 for the various CPA Commissions and the post-conflict construction/rehabilitation funds:

-CPA Commissions = SDG 107,023.487 million
-Darfur Development/Rehabilitation = SDG 484 million

-East Fund = SDG 374 million
-Unity Fund = SDG 366.4 million

Revenues Take a Hit

¶6. (SBU) According to the World Bank, the projected FY 2009 revenues of SDG 18.4 billion are a 15 percent drop from the previous year (SDG 22 billion). This is the result of a projected 30 percent decline in oil revenues (from SDG 11.3 billion in FY 2008 to SDG 7.9 billion.) At SDG 10.4 billion, total non-oil revenues will remain virtually unchanged from FY '08.

¶7. (U) Dr. Babiker M. Tom, Chair of the Economic Committee oft the National Assembly, expects that the FY 2009 budget may have to be revised due to the successive decrease in oil prices. The FY 2009 budget is based on oil prices of $50/barrel for blocks 1, 2 and $30/barrel for blocks 3/7. Sudan sells its oil at a discount from the benchmark price of Brent crude, which already is below $50/barrel.

Total Expenditures Steady, While Deficit Climbs Sharply
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¶8. (U) While total GoS expenditures will remain unchanged from FY '08 at SDG 26 billion, Government of National Unity (GNU) expenditures will increase by 12 percent, to SDG 17.2 billion. Simultaneously, however, transfers to the GoSS and to the 16 northern state governments will fall to SDG 6.68 billion (-14 percent). The FY' 09 net deficit will balloon to SDG 8.5 billion, or 81 percent larger that FY '08.

Security Trumps Peace Dividends

¶9. (U) Suliman Hamid, from the Sudan Communist Party and the chair of the Democratic National Alliance (NDA) Parliamentary bloc, criticized the budget. He noted that the GOS continues to heavily fund its security services at the expense of development and post-conflict reconstruction spending. He stated that the government's gross expenditure has increased from SDG 26 billion in FY 2008 to SDG 26.91 billion, with gross deficit of SDG 8.54 billion. The defense and security budget has increased by 40% from SDG 4.8 billion in FY 2008 to SDG 6.7 billion in FY 2009. Defense and security expenditures are 15 times, 13 times, and 67 times more

than that allocated for health, education and services respectively.

Comment

¶10. (SBU) The FY '09 budget reflects the difficult choices facing Sudan as its oil bonanza ends (reftel). Finance Minister Al-Jaz is considered a capable administrator, and he can be expected to execute the budget as well as is possible under the circumstances. But with the sharp drop in GoS revenues, his freedom to maneuver is limited. With oil prices already below the estimates on which the budget is based, it may require some significant revision in the coming months. Faced with multiple challenges in the coming year, the National Congress Party will find one of its key tools in maintaining control - buying domestic support with generous largesse - severely constrained.

ASQUINO